



Bank of Zambia

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

BOZ/EXEC/DGO/prsd/pm

September 24, 2025

CB Circular No. : 21/2025

To : All Heads of Financial Service Providers

ISSUANCE OF THE BANKING AND FINANCIAL SERVICES CAPITAL ADEQUACY RULES

The above subject refers.

The Bank of Zambia has issued **The Banking and Financial Services (Capital Adequacy) Rules, 2025** to strengthen the resilience of the financial sector. These Rules broadly align with the Basel II and III capital reforms which were aimed at addressing the weaknesses noted during and after the Global Financial Crisis by strengthening global capital and liquidity rules.

The Capital Adequacy Rules, 2025, improve the quality and quantity of regulatory capital through the introduction of common equity tier one (CET1) capital which is the highest quality of capital for loss absorption. The CET1 ratio has been set at 6 percent of risk weighted assets. The Rules also introduce Additional tier one (AT1) instruments which do not meet the requirements of CET1. This will form the second tranche of regulatory capital, which when added to CET1, will form primary capital. The primary capital ratio has been set at 8 percent of risk weighted assets for commercial banks and 10 percent for financial institutions and financial businesses. Secondary capital instruments such as subordinated debt, will form the third tranche of regulatory capital. When such instruments are added to the primary capital, this will add up to the regulatory capital, which has been set at 10 percent of risk weighted assets, with the exception of microfinance institutions, whose regulatory capital requirement has been set at 15 percent.

In addition to the minimum capital requirements, the Capital Adequacy Rules introduce the Capital Conservation Buffer (CCB) and the Countercyclical Capital Buffer (CCyB). The CCB, which must be held in the form of CET1, has been set at 3 percent of risk weighted assets and shall be held over and above CET1 capital. This buffer is intended to provide an additional layer of capital that can be drawn down when losses are incurred. Constraints on the distribution of profits shall apply to banks or financial institutions which do not meet the CCB requirement. The CCB can be drawn down during times of stress, to avoid banks or financial institutions going below the minimum capital requirements. The CCyB, which must be held in the form of CET1, shall be between 0 and 2.5 percent of risk weighted assets. The CCyB is intended to curb the build-up of system-wide risks and shall remain at zero unless otherwise pronounced by the Financial Stability Committee. Where a decision to revise the buffer upwards is announced to the market, the time frame required for the build-up of such buffer will be provided.

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Apart from the risk-based capital ratios, the Capital Rules introduce a non-risk-based Leverage Ratio requirement of 6 percent of the sum of total assets and off-balance sheet exposures for banks and financial institutions. This ratio is intended to constrain the build-up of excessive leverage in the financial system.

Be further advised that the Bank has issued Directives to operationalise specific elements of the Capital Adequacy Rules. In this regard, to operationalise **Rule 12**, the following Directives have been issued:

1. **The Banking and Financial Services (Computation of Credit Risk Weighted Assets) Directives, 2025** - These Directives provide the framework for the computation of risk weighted assets arising from credit risk-taking activities. The Directives adopt the Standardised Approach for the computation of credit risk weights, prescribing the risk weights applicable for different exposures in the banking book.
2. **The Banking and Financial Services (Computation of Minimum Capital Requirements for Market Risk) Directives, 2025** - The new capital regime recognises that banks are also exposed to other risks, apart from credit risk, arising from trading activities. In this respect, these Directives provide an approach for the computation of capital required to cover market risk arising from exposure to interest rate, foreign exchange, equities, commodities, and options risks.
3. **The Banking and Financial Services (Computation of Minimum Capital Requirements for Operational Risk) Directives, 2025** - Under the previous regulations, operational risk, arising from failures in people, processes and systems, was not factored in when determining the amount of regulatory capital that banks or financial institutions required. Pertaining to this, the Directives provide a basis for the computation of capital required to cover operational risk using the Basic Indicator Approach.
4. To operationalise **Rule 20**, the Bank has issued **The Banking and Financial Services (Internal Capital Adequacy Assessment Process) Directives, 2025**, which outline the requirements for the Internal Capital Adequacy Assessment Process (ICAAP). The Directives provide a framework for forward-looking capital planning over and above the minimum capital requirements, encompassing the measurement and management of risks not captured under the prescribed frameworks provided for in Rule 12. Regulated institutions will, therefore, be required to implement robust mechanisms for identifying material risks and estimating their potential impact on capital, with ultimate responsibility for capital management falling on the Board of Directors. In its supervisory role, the Bank may impose higher capital requirements where the ICAAP is found to be inadequate.
5. **Rule 21** of the Capital Rules provides for enhanced risk and capital disclosures to the general public. In relation to this, **The Banking and Financial Services (Public Disclosure of Capital and Risk Exposures) Directives 2025** have been issued to provide a broad reporting framework to entrench market discipline.

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The Capital Adequacy Rules will be applied on a proportional basis, with banks being required to fully comply with all the minimum requirements stipulated under the Rules as they pertain to banks, including Rule 12, 20 and 21, as well as the associated Directives. Deposit-Taking Financial Institutions will only be required to comply with the capital requirements applicable to Financial Institutions, except for Rule 12, 20 and 21, unless a determination is made by the Bank that enhanced compliance is necessary. Financial Businesses will only be required to comply with the Rules as far as they relate to Financial Businesses.

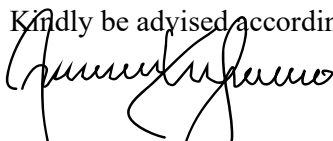
Table below contains a high-level summary of the Rules and their applicability to banks, financial institutions, financial businesses, micro-finance institutions (whether deposit taking or not) and bureaux de change. Transitional arrangements have been provided for in the Rules where a financial service provider does not fully comply with the requirements upon commencement.

Table: Capital Adequacy Rules Summary

Type of FSP	Banks	Financial Institutions	Financial Businesses	Micro-Finance Institutions	Bureaux De Change/ Credit Reference
Paid up capital	K520 million - Foreign owned K104 million - Citizen owned	K50 million – Housing Finance K50 million – Savings & Credit Institution K50 million – Leasing Finance	K750 million – Development Finance K5 million – Leasing Finance	K2.5 million deposit taking MFI. K100,000 - non-deposit taking MFI	K250,000 – Bureaux De Change K1.5 million – Credit Reference
CET1 Ratio <u>CET1</u> RWA	6 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	6 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	6 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	6 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	Not applicable
Primary Capital Ratio <u>CET1 + AT1</u> RWA	8 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	10 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	10 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	10 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	Not applicable
Regulatory Capital <u>CET1+AT1+Secondary</u> RWA	10 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	10 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	10 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	15 percent of the sum of the RWA or the minimum paid up capital, whichever is higher	Not applicable
Leverage Ratio <u>CET1</u> sum of total assets and off-balance sheet exposures	6 percent of sum of total assets and off-balance sheet exposures	6 percent of sum of total assets and off-balance sheet exposures	Not applicable	Applicable to Deposit Taking MFIs	Not applicable
CCB	3 percent of the sum of RWA	3 percent of the sum of RWA	Not applicable	Applicable to Deposit Taking MFIs	Not applicable
CCyB	0-2.5 percent of the sum of RWA	0-2.5 percent of the sum of RWA	Not applicable	Applicable to Deposit Taking MFIs	Not applicable

Parallel reporting for the computation of capital under the revised Capital Adequacy Framework will continue until December 31, 2025. Thereafter, institutions are expected to report based only on the revised Capital Adequacy Rules, 2025. The Bank of Zambia expects that the amendments to the Rules will contribute to a more resilient financial sector.

Kindly be advised accordingly.



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DEPUTY GOVERNOR - OPERATIONS

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